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## Mortgage Banking – Overview Program

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### Examination Objectives

To review the general management of the thrift's mortgage banking operation to determine if it is operating in a safe and sound manner.

To determine if the thrift is making any of the common mistakes or is operating in any of the common problem areas highlighted in this Section.

### Examination Procedures

*Perform the following examination steps to ensure that the mortgage banking activities do not pose concerns that historically have indicated trouble. Those steps that do not apply may be omitted; however, a notation should be made as to why they do not apply.*

#### Level I

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1. Have the thrift complete the Mortgage Banking Questionnaire.

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2. Review the organizational chart for mortgage banking activities. Determine whether decision making is centralized or delegated, and to what extent. Determine who is responsible for major decisions and where final authorities rest. Obtain and review the board of directors and committee minutes for significant information.

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3. Determine whether the board of directors and senior management have written policies and procedures defining permissible activities, individual responsibilities, and risk limits. Determine the policy making process and to what degree policies are followed. Determine if these policies and procedures ensure compliance with generally accepted business standards, laws, and regulations.

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4. Review the strategic plans for both the thrift and for the mortgage banking activities to determine if they are compatible, reasonable, and achievable.
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| 5.    | Assess management quality and depth, and review succession plans and their practicability.   |  |
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| 6.    | Review the mortgage banking unit's financial performance. Determine whether there is a separate profitability analysis for the mortgage banking operation or whether it is commingled with the thrift's performance.   |  |
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| 7.    | Review lists of common errors, risks, problems, and characteristics from this Section to determine if any apply.   |  |
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| 8.    | Determine if there is a comprehensive risk management system in place. Determine to what extent simulation modeling is employed.   |  |
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| 9.    | Obtain a copy of the latest external audit, the latest internal audit reports, and the written internal auditing procedures to determine whether: <ul style="list-style-type: none"><li>• Internal auditors are sufficiently independent and knowledgeable to render objective opinions;</li><li>• The scope and frequency of internal and external audits is adequate;</li><li>• To what extent external auditors rely on the internal auditors' work and if that level of reliance is justified;</li><li>• The controls related to mortgage banking operations are rated "effective" or better;</li><li>• Management has addressed in a timely manner the weaknesses noted in internal and external audit reports; and</li></ul> |  |

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- These audit reports disclose any significant risks that require immediate enforcement action.

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10. Locate investor sales and servicing manuals. Determine if those manuals are up to date, if they are easily accessible to the origination and servicing staffs, and if they are, in fact, being used.

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11. Assess current business volume in relation to personnel, physical facilities, and management information system (MIS) equipment and software. Determine the adequacy and feasibility of these areas in conjunction with future plans.

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12. Determine if mortgage banking is integrated into the thrift's overall asset/liability management activities.

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13. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level 1 procedures.

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### Level II

14. Review management's process for planning new products. Determine to what degree customer needs and wants are considered, if financial projections and risk analyses are made, and if legal opinions are obtained.

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15. Review MIS to determine their usefulness in evaluating and monitoring mortgage banking activities:

- Determine the adequacy of MIS and operating systems to supervise current operations;

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- Evaluate MIS reports for sufficient detail, accuracy, and timeliness;
- Evaluate management's and the board's knowledge and understanding of the systems; and
- Determine the use of the MIS data in the decision making process.

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16. Ascertain whether the thrift has recently been put on probation, suspended, or approval revoked as a seller or servicer for FHA, VA, FNMA, FHLMC, GNMA, private investors, or any PMI companies. Determine if they have since been reinstated.

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17. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

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### Examiner's Summary, Recommendations, and Comments

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